

Message Text

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ACTION EB-11

INFO OCT-01 ARA-16 ISO-00 COME-00 TRSE-00 EUR-25 DRC-01

FEA-02 AGR-20 CEA-02 CIAE-00 DODE-00 FRB-02 H-03

INR-10 INT-08 L-03 LAB-06 NSAE-00 NSC-07 PA-04 RSC-01

AID-20 CIEP-02 SS-20 STR-08 TAR-02 USIA-15 PRS-01

SP-03 OMB-01 SWF-02 /196 W
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R 241755Z JUN 74

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC 4050

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

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DEPT PASS DEPTS OF TREASURY AND COMMERCE

E. O. 11652: N/A

TAGS: ETRD, EFIN, BR

SUBJECT: COUNTERVAILING DUTY ON SHOES

1. OUR COUNTERVAILING DUTY INVESTIGATION ON BRAZILIAN SHOES CONTINUES TO BE THE SUBJECT OF CONSTANT AND CONSIDERABLE PRESS ATTENTION HERE. FROM THE DAY THE INVESTIGATION WAS ANNOUNCED BY THE U.S. TREASURY, THE PRESS HAS GIVEN THIS TOPIC PROMINENT PLAY; NEEDLESS TO SAY, ALL OF THE COMMENTARY HAS BEEN UNFAVORABLE TO US. FOR EXAMPLE, THE PRESS HAS PLAYED THE DECISION OF THE ECONOMIC DEVELOPMENT COUNCIL TO MAINTAIN THE PRESENT EXPORT INCENTIVE SYSTEM (SEE BRASILIA 4527) WITHIN THE CONTEXT OF THE U.S. COUNTERVAILING DUTY INVESTIGATION ON BRAZILIAN SHOES. IN ADDITION, PUBLIC OFFICIALS HAVE MADE NUMEROUS PRONOUNCEMENTS DEFENDING THE SHOE INDUSTRY'S POSITION AND PLEDGING CONTINUED GOVERNMENT SUPPORT FOR THE EXPANSION OF EXPORT MARKETS.

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2. THIS DEMONSTRATION OF BRAZILIAN GOVERNMENT'S INTEREST IN

AND CONCERN FOR THE SOCIALLY SENSITIVE AND ECONOMICALLY IMPORTANT SHOE INDUSTRY HAS BEEN DRAMATIZED DURING THE PAST TWO WEEKS BY THE PRESENCE OF PRESIDENT GEISEL AT THE OPENING OF SHOE FAIRS IN FRANCA AND NOVO HAMBURGO, THE TWO LARGEST SHOE PRODUCING CITIES IN SAO PAULO AND RIO GRANDE DO SUL, RESPECTIVELY. IN A SPEECH AT NOVO HAMBURGO DELIVERED IN THE PRESENCE OF PRESIDENT GEISEL, THE MINISTER OF INDUSTRY AND TRADE, USING A KIND OF SEMI-NATIONALISTIC RHETORIC SELDOM HEARD IN PUBLIC STATEMENTS AT THIS LEVEL, MADE A DIRECT LINK BETWEEN U.S. ACTION ON SHOES TO PARTICIPATION IN THE MASSIVE ITAIPU PROJECT. MINISTER GOMES STATED IN PART: "WITH RESPECT TO OUR FOREIGN TRADE, THE IMPERATIVE OF OUR POLICY IS TO FIND NEW MARKETS AND TO DIVERSIFY OUR EXPORTS, INCREASING TRADE AND ELIMINATING CONSTRAINING AND UNACCEPTABLE DEPENDENCIES THAT ARE GENERATING RESTRICTIVE THREATS MENACES WHICH WE WILL KNOW HOW TO MEET. OUR ASPIRATION, IN THE MEANTIME, IS TO PARTICIPATE IN A BIGGER WAY IN A WORLD MARKET (FOR SHOES) WHICH HAS AN IMPORT CAPACITY OF MORE THAN ONE BILLION PAIRS ANNUALLY. IT IS IN THIS CONNECTION THAT THE MINISTER OF MINES AND ENERGY IS STUDYING, WITHIN HIS PLAN TO EXPAND OUR HYDROELECTRIC CAPACITY, THE POSSIBILITY OF PURCHASING TURBINES FROM THE SOVIET UNION, THUS OPENING NEW POSSIBILITIES FOR OUR FOREIGN TRADE." THE SPEECH RECEIVED WIDESPREAD ATTENTION, BUT ONLY THE INDEPENDENT JORNAL DE BRASILIA GAVE IT FRONT-PAGE HEADLINE TREATMENT. THE SAME PAPER FOLLOWED UP WITH AN EDITORIAL PRAISING THE POLICY AND COURAGE OF MINISTER GOMES' SPEECH AND INCLUDING THE FOLLOWING: "...GOMES' SPEECH WAS A FIRM ASSERTION OF POLICY AND COURAGE, WHICH WAS MOST SIGNIFICANT HAVING BEEN DELIVERED IN THE PRESENCE OF THE PRESIDENT OF THE REPUBLIC AND IN HIS NAME ... (THE SPEECH) PUT ASIDE THE FAINTHEARTED CONVENTIONALISM WHICH HAS SURROUNDED BRAZIL'S RELATIONS WITH THE U.S. AND TRIED TO PLACE THESE RELATIONSHIPS WITH RESPECT TO ECONOMIC PROBLEMS ON A REALISTIC LEVEL."

3. THE SPEECH WAS EVIDENTLY INTENDED TO HAVE A DOUBLE PURPOSE: FIRST, TO EXERT RATHER CRUDE "PRESSURE" ON THE U.S.G.; AND, SECOND, TO REASSURE THE UNEASY BRAZILIAN SHOE MANUFACTURERS (SEE BRASILIA 4527). FOR ALL ITS SIMPLISTIC TONE, THE IMPORT-
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TANCE OF THE SPEECH, ALMOST CERTAINLY KNOWN AND APPROVED BY GEISEL, SHOULD NOT BE UNDERESTIMATED. THERE IS REASON TO BELIEVE THAT, IF HEAVY COUNTERVAILING DUTIES ARE APPLIED, THE GOB WOULD EXAMINE CAREFULLY AREAS OF POSSIBLE REPRISAL. THE GOMES SPEECH WAS INDICATIVE OF SUCH THINKING IN SOME SECTORS OF THE GOB.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PRESS COMMENTS, EXPORTS, COUNTERVAILING DUTIES, EXPORT SUBSIDIES, SHOES
Control Number: n/a
Copy: SINGLE
Draft Date: 24 JUN 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: CollinP0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974BRASIL04582
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740166-0057
From: BRASILIA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740621/aaaaarfm.tel
Line Count: 112
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: CollinP0
Review Comment: n/a
Review Content Flags:
Review Date: 12 SEP 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <12 SEP 2002 by cunninfx>; APPROVED <14 FEB 2003 by CollinP0>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: COUNTERVAILING DUTY ON SHOES
TAGS: ETRD, EFIN, BR
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005